

Message Text

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INFO OCT-01 NEA-10 ISO-00 EB-07 COME-00 CIEP-01 SSO-00

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APPROVED BY EB/IFD/OIA:DHSTEBBING

TREAS:MBLAKE(DRAFT)

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TO AMEMBASSY JIDDA IMMEDIATE

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E.O. 11652: N/A

TAGS: EINV,SA

SUBJECT- FINDUSTRY PROPOSAL

REF: (A) JIDDA 4700;

(B) STATE 157512

(C) STATE 152406;

(D) JIDDA 4634;

(E) STATE 107988

(D) JIDDA 5013

1. FINDUSTRY INTERNATIONAL WAS RECENTLY INCORPORATED
IN CALIFORNIA FOR PURPOSE OF ENGAGING IN INTERNATIONAL
TRADE. FOUNDERS AND CHIEF EXECUTIVE OFFICERS ARE
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FOLLOWING: ARTHUR A. FLETCHER, BOARD CHAIRMAN AND
FORMER U.S. ASSISTANT SECRETARY OF LABOR; MAURICE A.
DAWKINS, PRESIDENT; AND GEORGE L. VAUGHN, JR., SECRETARY-

GENERAL COUNSEL. FINDUSTRY APPARENTLY USES VAUGHN'S LAW OFFICE AS MAILING ADDRESS. IT IS: FINDUSTRY INTERNATIONAL INC., 4420 SOUTH VERMONT AVENUE, LOS ANGELES, CALIFORNIA 90037.

2. PRINCIPALS SAY FINDUSTRY ORIGINALLY INTENDED TO PURCHASE CRUDE OIL FROM PETROMIN OR OTHER SAUDI INTERESTS, BUT FOUND IT COULD NOT PURCHASE CRUDE WITHOUT CONTRACTS TO REFINERIES TO PROCESS CRUDE. CONSEQUENTLY, FINDUSTRY OFFICIALS DEVISED SCHEME TO (A) ACQUIRE, WITH DOLS 375 MILLION SAUDI FINANCING, ASSETS OF TIDEWATER OIL COMPANY, WHICH FEDERAL COURT HAD ORDERED PHILLIPS PETROLEUM COMPANY TO DIVEST IN ANTI-TRUST RULING, AND (B) ENTER INTO LONG-TERM CONTRACT WITH PETROMIN OR OTHER SAUDI PETROLEUM INTERESTS TO ESTABLISH JOINT VENTURE FOR TRANSPORT, REFINING, AND PROCESSING CRUDE OIL AND WITH PROVISION FOR DIVISION OF NET PROFIT ON 50-50 BASIS. THIS IS ESSENTIALLY PROPOSAL WHICH HAS BEEN SUBJECT OF RECENT COMMUNICATIONS.

3. FINDUSTRY AND ITS PROPOSAL FIRST CAME TO OUR ATTENTION IN MAY 1975 WHEN FLETCHER WROTE TO PRESIDENT FORD REQUESTING MEETING WITH USG OFFICIALS TO MAKE CERTAIN EFFORTS QUOTE CONSISTENT WITH NATIONAL POLICY GOALS, OBJECTIVES, REGULATIONS, ETC. UNQUOTE. CONSEQUENTLY, COUNCIL ON INTERNATIONAL ECONOMIC POLICY HELD MEETING OF INTERAGENCY REPRESENTATIVES WITH FINDUSTRY OFFICIALS. AS REPORTED IN REFTEL E, FINDUSTRY REPS DISCUSSED PROPOSAL AND EFFORTS TO NEGOTIATE WITH SAUDI ARABIAN INTERESTS TO ARRANGE FINANCING TO PURCHASE TIDEWATER AND ACQUISITION OF CRUDE. USG REPS EXPLAINED (A) PURPOSE AND PROCEDURES TO NEW COMMITTEE ON FOREIGN INVESTMENT IN THE UNITED STATES, NOTING THAT ONE OF ITS FUNCTIONS WOULD BE REVIEW OF MAJOR DIRECT INVESTMENTS BY FOREIGN GOVERNMENTS IN THE U.S., AND (B) NEW CONSULTATION PROCEDURES, REFERRING SPECIFICALLY TO SAUDI-U.S. JOINT COMMUNIQUE IN WHICH AGREEMENT TO CONSULT ON SPECIFIC LIMITED OFFICIAL USE

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INVESTMENTS WAS ANNOUNCED. USG OFFICIALS ALSO MADE CLEAR THAT MEETING IN NO WAY INDICATED USG APPROVAL OF FINDUSTRY PLANS AND SUGGESTED NEXT STEP WOULD BE FOR SAUDI GOVERNMENT TO ACTIVATE CONSULTATION PROCESS WITH USG.

4. DURING PAST TWO MONTHS, FINDUSTRY OFFICIALS APPARENTLY HAVE CONTINUED TO PURSUE EFFORTS TO ACQUIRE TIDEWATER OIL AND TO ARRANGE FOR SAUDI FINANCING FOR OVERALL PACKAGE. ACCORDING TO FINDUSTRY OFFICIALS,

RESULTS OF CIEP MEETING WERE COMMUNICATED TO SAUDI INTERESTS (SHEIK KAMAL ADHAM AND PRINCE SAUD AL FAISAL) VIA GENERAL COUNSEL VAUGHN AND DAVID LLEWELLYN, MEMBER OF BOARD AND EXEC. V.P. OF FINDUSTRY AND REPORTEDLY MANAGING DIRECTOR OF L. LLEWELLYN COMPANY, LONDON. ACCORDING TO DAWKINS AND FLETCHER SAUDI INTERESTS REPORTEDLY REFERRED TO ALLEGED ANTI-SAUDI ATTITUDE IN U.S. AND REQUESTED THAT TREASURY ASSISTANT SECRETARY PARSKY ACCOMPANY FINDUSTRY DELEGATION TO FINALIZE FINDUSTRY-SAUDI AGREEMENT AS INDICATION OF USG SUPPORT.

5. APPROACH TO PARSKY WAS NEVER MADE, SO REFERENCE TO PARSKY INVOLVEMENT IN FINDUSTRY DELEGATION IN CABLE TRANSMITTED BY REFTEL D WAS INACCURATE. ON RECEIPT OF

REFTEL D PARSKY CALLED IN DAWKINS AS REPORTED IN REFTEL C. NEVERTHELESS, DAWKINS AND FLETCHER LATER SENT LETTER TO ATTORNEY GENERAL LEVI RE PHILLIPS PETROLEUM CASE IMPLYING PARSKY WILLINGNESS TO GO TO JIDDA QUOTE TO INTERPRET U.S. POLICY RE THIS EFFORT TO INCREASE ENERGY RESOURCES THROUGH DEVELOPMENTS SUCH AS FINDUSTRY IS PROPOSING UNQUOTE AND PROVIDED COPY TO PARSKY. PARSKY IN TURN RESPONDED WITH LETTER IN REFTEL B.

6. AT SAME TIME FINDUSTRY OFFICIALS APPARENTLY ATTEMPTED TO OBTAIN DELAY IN COURT PROCEEDINGS RE PHILLIPS PETROLEUM DIVESTITURE OF TIDEWATER OIL IN ORDER TO PUT TOGETHER ALTERNATIVE PROPOSAL FOR PURCHASE OF TIDEWATER ASSETS. ON JUNE 30, HOWEVER, FEDERAL COURT JUDGE REPORTEDLY GAVE CONDITIONAL APPROVAL TO PHILLIPS PETROLEUM PLAN FOR SALE OF TIDEWATER ASSETS TO THIRD LIMITED OFFICIAL USE

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PARTY AND EXPECTATION IS THAT CONDITIONS WILL BE MET.

7. DESPITE THIS, IT APPEARS FINDUSTRY INTENDS TO CONTINUE TO PURSUE PROPOSAL. WE HAVE RECEIVED COPY OF DAWKINS-FLETCHER MEMO BRIEFLY PRESENTING PLANS TO SET UP CONFERENCE WITH ATTORNEY GENERAL LEVI RE POSSIBLE APPEAL OF COURT DECISION AND TO PREPARE PACKAGE FOR COMMITTEE ON FI IN U.S. QUOTE WHICH CAN BE USED BY THEM TO FACILITATE ARRANGEMENTS FOR PRESENTATION TO THE SAUDIS UNQUOTE. SCHEDULED MEETING WITH SAUDI'S REPORTED IN JIDDA 5013 ALSO PART OF FINDUSTRY PLANS.

8. IT IS UNLIKELY, THAT APPROACH TO JUSTICE DEPT. WILL BE SUCCESSFUL, SO FINDUSTRY EFFORTS RE TIDEWATER PROPOSAL PROBABLY HAVE LITTLE CHANCE OF SUCCESS. IT IS POSSIBLE, HOWEVER, FINDUSTRY MAY IN FUTURE APPROACH SAUDIS AGAIN WITH PROPOSALS FOR

FINANCING NEW SCHEMES. IN RECENT TELCON VAUGHN SPOKE
OF POSSIBILITY OF FINDUSTRY ATTEMPT TO LOCATE AND
PURCHASE ANOTHER REFINING COMPANY. FURTHERMORE, AT
MAY CIEP MEETING FINDUSTRY OFFICIALS MENTIONED THEY
ARE INVESTIGATING SCHEME FOR USE OF CONVERTED 747
AIRLINERS TO TRANSPORT OIL TO U.S. AT WHAT THEY
CLAIMED WOULD BE LOWER COST THAN BULK OCEAN TRANSPORT.
THIS PROJECT WOULD ALSO INVOLVE POSSIBLE CONSTRUCTION
OF REFINERY IN CALIFORNIA DESERT IN ORDER TO AVOID

COMPLICATIONS OF ENVIRONMENTAL PROTECTION AGENCY'S
STANDARDS. INGERSOLL

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